

Ways and Means Committee Meeting

AGENDA January 12, 2010

One and one-half hours after adjournment

- I. Opening Remarks
- II. Administrative Business
- III. Budget Calendar
- IV. BEA Economic Update presented by Dr. William C. "Bill" Gillespie, Chief Economist, Board of Economic Advisors
- V. S. C. Education Lottery Update presented by Paula Harper-Bethea, Executive Director, and Anthony S. Cooper, Esquire, Chief Operating Officer.
- VI. Closing Remarks

Ways and Means Committee

Budget Schedule 2010

January 12 - 14:	First week of session & Budget Subcommittees Meetings
January 19 - 21:	Budget Subcommittees Meetings
January 26 - 28:	Budget Subcommittees Meetings
February 2 - 4:	Budget Subcommittees Meetings
February 9 - 11:	PROVISO SUBCOMMITTEE MEETINGS
February 16* - 18:	FULL COMMITTEE BUDGET DELIBERATIONS
February 23 - 25:	FY 09-10 Appropriation Bill Printed
March 2 - 4:	Printed Appropriation Bill placed on House Member's desk
March 9* - 11:	HOUSE FLOOR BUDGET DELIBERATIONS

Important Dates:

February 2, 2010:	Deadline for Proviso Submittals
February 3, 2010:	Provisos sent for drafting
February 15, 2010:	Final BEA estimate due
March 2, 2010:	Standing Committee Budget Briefing
* The Full Committee and House floor deliberations may begin on Monday of the weeks indicated.	

Note: SC Code 11-11-70 provides that within five days after the beginning of each regular session of the General Assembly the Governor shall submit to the presiding officer of each house printed copies of a budget.

Note: Section 2-1-180 requires third reading of Appropriations Bill by March 31 or session is extended. Art. III, Sect. 36 (B)(3)(a) of the Constitution requires that after March 1 of a fiscal year, if the BEA has not declared a shortfall, Capital Reserves may be appropriated by the General Assembly in separate legislation.

Note:

Third Reading of Appropriation Bill: Section 2-1-180 provides "In any year that the House of Representatives fails to give third reading to the annual General Appropriation Bill by March thirty-first, the date of sine die adjournment is extended by one statewide day for each statewide day after March thirty-first that the House of Representatives fails to give the bill third reading.

Capital Reserve Fund

S. C. Constitution- Article III, Section 36 provides:

"(B) (1) The General Assembly must provide by law that if before March first the revenue forecast for the current fiscal year projects that revenues at the end of the fiscal year will be less than expenditures authorized by appropriation for that year, then the current year's appropriation to the Capital Reserve Fund first must be reduced to the extent necessary before mandating any reductions in operating appropriations."

"(B) (2) After March first of a fiscal year, monies from the Capital Reserve Fund may be appropriated by the General Assembly in separate legislation upon an affirmative vote in each branch of the General Assembly by a two-thirds of the members present and voting, but not less than three-fifths of the total membership in each branch for the following purposes:

- (a) to finance in cash previously authorized capital improvement bond projects;
- (b) to retire interest or principal on bonds previously issued;
- (c) for capital improvements or other nonrecurring purposes."

"(B) (3) (a) Any appropriation of monies from the Capital Reserve Fund as provided in this subsection must be ranked in priority of expenditure and is effective thirty days after completion of the fiscal year."

OUTLOOK FOR STATE REVENUES

PRESENTED TO

**THE WAYS AND MEANS COMMITTEE
SOUTH CAROLINA HOUSE OF REPRESENTATIVES**

BY

WILLIAM GILLESPIE, PH.D.

CHIEF ECONOMIST, STATE OF SOUTH CAROLINA

JANUARY 12, 2010

INTRODUCTION

THANKS FOR INVITING ME AGAIN TO BRIEF YOU ON SOUTH CAROLINA'S ECONOMY, STATE REVENUE TRENDS AND THE OUTLOOK FOR STATE REVENUES. OVER THE 18 YEARS THAT I HAVE SERVED YOU AS CHIEF ECONOMIST, I'VE NEVER HAD TO BRING YOU NEWS THAT IS THIS BAD. LAST FISCAL YEAR, FY 08-09 WAS A DISASTER. I CAN'T FIND ANY DATA GOING BACK FAR ENOUGH TO FIND A YEAR THAT WAS WORSE THAN LAST FISCAL YEAR. LOOK AT THE FIRST CHART ON REVENUE CHANGES PER YEAR. THAT HUGE RED, NEGATIVE LINE, (12.5) PERCENT, FOR FY 08-09 IS BY FAR THE WORST YEAR SINCE 1950. I COULDN'T FIND DATA FOR THE 1930'S TO IF SEE REVENUES WERE AS BAD AS THEN.

ECONOMIC CONDITIONS COLLAPSE DURING FY 08-09

SO HOW DID WE GET INTO THIS MESS? THE SEEDS OF THIS PERFECT ECONOMIC STORM BEGAN FORMING IN 2007. OIL PRICES WERE ON THE RISE IN 2007, PUTTING STRAINS ON CONSUMERS. THE SECOND CHART SHOWS GASOLINE PRICES RISING IN 2007 AND PEAKING IN JUNE 2008.

BUT MORE IMPORTANTLY, THE EXCESSIVELY RISKY PRACTICES OVER YEARS IN THE FINANCIAL MARKETS STARTED TO COME HOME TO ROOST. BY 2007, 45% OF MORTGAGE LOANS WERE CONVENTIONAL NON-CONFORMING LOANS, MEANING THAT THEY WERE NOT UP TO FANNIE MAE STANDARDS. CONSEQUENTLY, SINCE FANNIE MAE WOULDN'T TAKE

THESE LOANS, THEY WERE SOLD IN THE PRIVATE, SECONDARY MARKET TO ALTERNATIVE INVESTORS, PRIMARILY AS MORTGAGE-BACKED SECURITIES. A MORTGAGE-BACKED SECURITY IS ESSENTIALLY A BOND WHOSE EARNINGS ARE BACKED BY THE INTEREST PORTION OF PROPERTY OWNER'S MORTGAGES.

AS MORE HOME BUYERS BEGAN TO STRUGGLE WITH THEIR MORTGAGE AND HOME EQUITY LOAN PAYMENTS, IT BECAME EVIDENT TO SECONDARY INVESTORS THAT THERE WERE SEVERE PROBLEMS WITH THESE MORTGAGE-BACKED SECURITIES. IN AUGUST 2007, INVESTORS SIMPLY STOPPED BUYING THESE MORTGAGE BACKED SECURITIES.

BANKS THAT HAD MADE THE RISKY MORTGAGE LOANS AT THAT TIME GOT STUCK WITH THEM BECAUSE THEY COULDN'T RESELL THEM. THAT'S WHEN BIG MORTGAGE LENDERS STARTED TO HAVE SEVERE TROUBLE. AMERICAN HOME MORTGAGE WAS AMONG THE FIRST OF SIGNIFICANT FINANCIAL INSTITUTIONS TO BITE THE DUST, ON AUGUST 6, 2007. AT THE SAME TIME, COUNTRYWIDE FINANCIAL, WHICH HAD ABOUT ONE-SIXTH OF ALL MORTGAGES IN THE US, TEETERED NEAR COLLAPSE, UNTIL IT WAS BOUGHT OUT BY BANK OF AMERICA IN JANUARY 2008. THE NET RESULT OF THE DRY-UP OF THE SECONDARY MORTGAGE MARKET WAS A DEPRESSION IN THE REAL ESTATE AND CONSTRUCTION SECTORS IN KEY AREAS OF THE COUNTRY.

WHILE COUNTRYWIDE WAS TEETERING IN THE SECOND HALF OF 2007, RESIDENTIAL BUILDING PERMITS IN SC DROPPED FROM A PEAK OF 2,300 IN MAY 2007, BEFORE THE AMERICAN HOME MORTGAGE BANKRUPTCY, TO 1,000 BY NOVEMBER 2007. THIS DROP IS SHOWN IN CHART 3.

AS FOR THE STATE'S ECONOMY, IT DIDN'T GO IN THE TANK AS SOON AS THE ECONOMIES OF CALIFORNIA, FLORIDA, NEVADA AND OTHER STATES THAT WERE HEAVILY INTO THE REAL ESTATE SPECULATION BUSINESS. ALL OUR NUMBERS SAY THAT SOUTH CAROLINA'S ECONOMY GREW SLOWLY UP TO JUNE 2008. THOUGH HOME SALES IN SOUTH CAROLINA WERE DOWN FROM LEVELS IN 2007, THEY STILL WERE ABOVE 4,500 PER MONTH UNTIL JUNE OF 2008. YOU CAN SEE THIS ON CHART 4.

THAT'S WHEN THE PRICE OF GASOLINE HIT \$4.00 PER GALLON. THE RUN-UP IN GASOLINE PRICES CAUSED CONSUMERS IN SOUTH CAROLINA TO INCREASE THEIR SPENDING ON GASOLINE FROM A LITTLE MORE THAN \$400 MILLION PER MONTH TO A STIFLING \$800 MILLION PER MONTH. IT'S EASY TO SEE WHY CONSUMERS WERE PINCHED THEN.

AS A RESULT, NON-FUEL EXPENDITURES AND SERVICES TOOK A SEVERE HIT. WHEREAS THERE IS USUALLY SOME INCREASE IN SERVICE JOBS DURING THE SUMMER, IN THE SUMMER OF 2008 THERE WAS A DECLINE IN THE SERVICE SECTOR.

TO MAKE MATTERS WORSE, THE FALLOUT FROM THE SUBPRIME MORTGAGE DEBACLE, WHICH HAD ALREADY HIT CALIFORNIA, FLORIDA AND NEVADA HARD, CAME TO SOUTH CAROLINA IN THE FALL OF 2008. AS A RESULT, THE REAL ESTATE AND CONSTRUCTION SECTORS OF SOUTH CAROLINA FELL DEEPER INTO A RECESSION. HOME SALES DECLINED FROM OVER 4,500 IN JUNE 2008 AT THE BEGINNING OF THE SOUTH CAROLINA RECESSION TO AROUND 2,000 IN JANUARY 2009. YOU CAN SEE THIS ON CHART 4 REGARDING HOME SALES.

THE DECLINE IN THE REAL ESTATE MARKET NATIONWIDE PERMEATED THE FINANCIAL SECTOR. LEHMAN BROTHERS WENT INTO BANKRUPTCY IN THE MIDDLE OF SEPTEMBER 2008, CITING DEBT OF \$768 BILLION AND ASSETS WORTH ONLY \$639 BILLION, FOR A DEFICIT OF \$129 BILLION. TO PUT THIS SHORTFALL INTO PERSPECTIVE FOR YOU, THE STATE OF SOUTH CAROLINA'S GENERAL OBLIGATION DEBT IS ONLY \$8.2 BILLION. THAT SHOULD TELL YOU A LITTLE ABOUT WHAT "TOO BIG TO FAIL" MEANS.

SOON AFTER, MORGAN STANLEY AND GOLDMAN SACHS HIT THE SKIDS AND ANNOUNCED THAT THEY WOULD BECOME TRADITIONAL BANK HOLDING COMPANIES REGULATED BY THE FEDERAL RESERVE. IN OTHER WORDS, THEY NEEDED A BAILOUT.

IN OCTOBER 2008, THE U.S. GOVERNMENT RESPONDED TO THE SERIOUS CONDITIONS IN THE BANKING INDUSTRY BY IMPLEMENTING THE TROUBLED ASSET RELIEF PROGRAM (TARP) THROUGH THE U.S. DEPARTMENT OF TREASURY. THE U.S. TREASURY PROVIDED FUNDS TO 738 BANKS TOTALING \$205 BILLION, MOST OF WHICH WAS IN THE FORM OF PURCHASES OF PREFERRED STOCK.

WITH ECONOMIC CONDITIONS GETTING WORSE, CONSUMERS NATIONWIDE TIGHTENED THEIR BELTS THROUGHOUT LAST FISCAL YEAR. NOT ONLY DID THEY NOT BUY ALL THAT MUCH, THEY ALSO REDUCED THEIR CREDIT CARD AND CAR LOAN BALANCES BY ABOUT 7%.

THIS ALL ADDED UP TO THE GREAT RECESSION LAST FISCAL YEAR. FROM THE BEGINNING OF THE SOUTH CAROLINA RECESSION IN JUNE 2008, THE NUMBER OF UNEMPLOYED IN SOUTH CAROLINA INCREASED FROM A LITTLE OVER 140,000 TO A PEAK IN JUNE 2009 OF NEARLY 280,000, BOOSTING THE UNEMPLOYMENT RATE TO 11.7% IN JUNE 2009. YOU CAN SEE THIS DRAMATIC RISE IN THE NUMBER OF UNEMPLOYED ON CHART 5 AND THE CORRESPONDING UNEMPLOYMENT RATE ON CHART 6.

BEA CUTS DURING FISCAL YEAR 2008-2009

SO WHAT HAPPENED TO THE STATE'S REVENUES DURING THE GREAT SOUTH CAROLINA RECESSION? THIS PAST FISCAL YEAR WE SAW ONE CUT

AFTER ANOTHER AS THE ECONOMY WORSENE. BEGINNING IN JUNE OF LAST FISCAL YEAR, THE BOARD OF ECONOMIC ADVISORS LOWERED ITS ESTIMATE FOUR TIMES UP THROUGH DECEMBER 2008 FOR A TOTAL REDUCTION OF 8.3%, OR \$919 MILLION.

BUT THAT WAS NOT THE END OF THE CUTS. WHEN THE BEA MET FEBRUARY 9, 2009 TO SET THE FINAL ESTIMATE FOR THIS YEAR'S BUDGET FOR THE WAYS AND MEANS COMMITTEE, LAYOFFS WERE AVERAGING OVER 40,000 PER MONTH. THIS IS SHOWN ON CHART 7. FEARING THAT THE LAYOFFS WOULD CONTINUE INTO NEXT FISCAL YEAR, THE BEA DECIDED TO SET THE REVENUE ESTIMATE FOR THE FY 09-10 BUDGET, THIS FISCAL YEAR, AT 3.0% BELOW THE REVISED ESTIMATE FOR LAST FISCAL YEAR.

WHEN THE BEA MET ON MARCH 11, 2009, THE REVENUE SITUATION HAD NOT IMPROVED AND THE LAYOFFS WERE STILL AVERAGING OVER 40,000 PER MONTH. GIVEN THAT THE LAYOFFS WERE STILL AT A HIGH RATE, THE BEA LOWERED ITS ESTIMATE ANOTHER 1% BOTH LAST FISCAL YEAR AND FOR THIS FISCAL YEAR 09-10. THAT BROUGHT THE TOTAL CUTS FOR LAST FISCAL YEAR TO 9.3% FROM THE FY 08-09 APPROPRIATION ACT. THAT ALSO BROUGHT THE ESTIMATE FOR THIS FISCAL YEAR 09-10 TO A TOTAL REDUCTION OF 21% FROM THE BUDGETED AMOUNT FOR FY 07-08, BEFORE THE GREAT RECESSION.

WHEN THE FINAL FIGURES BECAME AVAILABLE FOR FY 08-09 IN AUGUST, ACTUAL REVENUES WERE DOWN 12.5%, OR ONE BILLION, TWO HUNDRED MILLION DOLLARS, FOR THE FISCAL YEAR. AS I SAID EARLIER, WE CAN'T FIND A YEAR THAT WAS AS BAD, AND WE LOOKED BACK AS FAR AS THE 1950 RECESSION AFTER THE KOREAN WAR.

ACTUAL REVENUES FOR FY 09-10

WHAT ABOUT THE CURRENT FISCAL YEAR. IT DIDN'T START OFF VERY WELL. BECAUSE ACTUAL REVENUES LAST FISCAL YEAR ENDED UP LESS THAN THE BEA'S DISMAL ESTIMATE, THE BEA LOWERED ITS ESTIMATE FOR THIS FISCAL YEAR IN JUNE 2009 BY \$120 MILLION AND IN JULY BY ANOTHER \$208 MILLION. THE BUDGET AND CONTROL BOARD RESPONDED BY IMPLEMENTING A 4.0% ACROSS THE BOARD CUT FOR THIS FISCAL YEAR.

I WISH I COULD TELL YOU THAT THE JULY CUT WAS THE LAST OF THE BAD NEWS. WHEN THE BEA RECEIVED REVENUE FIGURES AT THE END OF OCTOBER, THEY WERE \$126 MILLION, OR ABOUT 2% BEHIND SCHEDULE TO MEET THE BEA'S LOWERED, REVISED ESTIMATE FOR THIS FISCAL YEAR. REVENUES WERE 9% LESS THAN THOSE FOR THE SAME PERIOD LAST YEAR. THE SALES TAX WAS DOWN 6.1% AND THE INDIVIDUAL INCOME TAX WAS DOWN 6.2%. THE CORPORATE INCOME TAX WAS DOWN 11.5%, PRIMARILY AS A RESULT OF A \$29 MILLION UNFAVORABLE SUPREME

COURT RULING REGARDING INVESTMENT TAX CREDITS EARNED BY SCANA IN 1996. ALL OTHER REVENUE SOURCES, WHICH COMPRISE LESS THAN ONE-TENTH OF OUR REVENUES, WERE DOWN 12.7%.

JUST BEFORE THE BEA HAD RECEIVED THE DISMAL REVENUE RESULTS FOR OCTOBER, IT MET WITH ITS ADVISORY COMMITTEE OF LEADING ECONOMISTS FROM AROUND THE STATE. NEARLY ALL OF THEM PAINTED A DEPRESSING PICTURE OF OUR ECONOMY. THEY ALL SAID THAT THEY DID NOT EXPECT MUCH OF AN IMPROVEMENT ANY TIME SOON.

WHEN THE BEA MET NOVEMBER 10, 2009 TO SET THE PRELIMINARY ESTIMATE FOR THE FY 10-11 BUDGET, IT WAS FACED WITH A REVENUE SITUATION THAT WAS 2% BELOW ITS JULY ESTIMATE, PLUS A VERY BAD ECONOMIC SCENARIO FROM ITS PANEL OF ADVISERS. CONSEQUENTLY, THE BEA LOWERED ITS ESTIMATE FOR THIS FISCAL YEAR BY ANOTHER 2% TO BRING ITS ESTIMATE IN LINE WITH ACTUAL COLLECTIONS. THE BEA'S ESTIMATE FOR THIS FISCAL YEAR IS NOW 7% BELOW ACTUAL COLLECTIONS LAST FISCAL YEAR.

THE BUDGET AND CONTROL BOARD RESPONDED BY ADOPTING A 5% ACROSS THE BOARD CUT ON DECEMBER 15, 2009.

BEA ESTIMATE FOR NEXT BUDGET

AS FOR THE NEXT FISCAL YEAR, FY 10-11, THE BEA COULD SEE NO BASIS FOR ADDING ANY AMOUNT TO THIS YEAR'S REVISED ESTIMATE AND SET THE FY 10-11 ESTIMATE THE SAME AS ITS REVISED ESTIMATE FOR THIS FISCAL YEAR. THE BEA'S REVENUE ESTIMATE FOR THE UPCOMING BUDGET IS 7.4% BELOW THE REVENUE ESTIMATE YOU USED IN THIS YEAR'S BUDGET. THE BEA WILL MEET AGAIN IN FEBRUARY TO FINALIZE ITS ESTIMATE FOR THIS COMMITTEE.

SINCE THE BEA MET LAST NOVEMBER, IT HAS RECEIVED REVENUE RESULTS FOR NOVEMBER 2009. REVENUES WERE UP 5.8% FROM NOVEMBER THE PREVIOUS YEAR. ALTHOUGH THE INCREASE WAS A LITTLE COMFORTING, IT DID NOT REFLECT ANY ECONOMIC IMPROVEMENT BECAUSE IT INCLUDED LATE COLLECTIONS FROM THE PREVIOUS MONTH. FOR THE FISCAL YEAR, REVENUES WERE STILL DOWN 6.5% FROM LAST YEAR. ACTUAL COLLECTIONS THROUGH NOVEMBER ARE SHOWN IN THE LAST TABLE.

OUTLOOK FOR IMPROVEMENT IN THE BUDGET ESTIMATE

WITH AN ESTIMATE THAT IS SO LOW, I KNOW SOME OF YOU ARE WONDERING IF THERE IS ANY HOPE OF IMPROVEMENT BEFORE THE FINAL BUDGET IN MAY. THERE ARE SOME MODEST SIGNS THAT THE ECONOMY HAS STABILIZED.

DR BERNANKE, CHAIRMAN OF THE FEDERAL RESERVE, HAS SAID THAT THE ECONOMY APPEARS TO HAVE STABILIZED AND IS IMPROVING VERY SLOWLY.

THE U.S. DEPARTMENT OF COMMERCE RECENTLY ANNOUNCED THAT GDP IN THE THIRD QUARTER 2009 ROSE 3.5%. AS YOU ALL KNOW, HOWEVER, GDP IS A MEASURE OF PRODUCTION, NOT EMPLOYMENT. WE NEED AN IMPROVEMENT IN OUR EMPLOYMENT SITUATION.

LATEST LAYOFF FIGURES, WHICH WERE FOR THE MONTH OF DECEMBER, INDICATED THAT THE LAYOFFS WERE MODERATING. THEY WERE A LITTLE MORE THAN 30,000 IN DECEMBER, WHICH WAS JUST A LITTLE MORE THAN AVERAGE. YOU CAN SEE THIS ON THE LAYOFF CHART IN YOUR PACKET.

THERE ALSO HAS BEEN SOME STABILIZATION OF CONDITIONS IN THE BANKING BUSINESS. OF THE 738 BANKS THAT RECEIVED THE \$205 BILLION INVESTMENT FUNDS FROM THE TREASURY UNDER TARP, 59 BANKS HAVE FULLY REPAID THE TREASURY DEPARTMENT AND 6 HAVE PARTIALLY REPAID THE TREASURY, FOR A TOTAL REPAYMENT OF \$122 BILLION.

HOME SALES IN SOUTH CAROLINA HAVE RECOVERED FROM THEIR 2,000 LEVEL IN JANUARY TO AROUND 4,000 PER MONTH THE LAST FOUR

MONTHS. I AM TOLD BY PEOPLE IN THE REAL ESTATE BUSINESS THAT THERE ARE MORE CUSTOMERS THAT ARE WILLING AND ABLE TO BUY A HOUSE, BUT SALES ARE BEING IMPEDED BY TIGHTER REQUIREMENTS BY LENDERS TO MAKE NEW MORTGAGES CONFORM TO FANNIE MAE STANDARDS. THEY ALSO TELL ME THAT HOME SALES WILL PICKUP MORE ONCE CONFIDENCE IN THE SAFETY OF MORTGAGES IS RESTORED TO THE MARKET.

NONETHELESS, UNTIL THERE IS AN IMPROVEMENT IN THE EMPLOYMENT SITUATION, THERE IS LITTLE ROOM FOR OPTIMISM REGARDING REVENUES. LOOK AT CHART 8 REGARDING THE TOTAL NUMBER OF EMPLOYEES IN THE STATE. WE HAD SOME JOBS ADDED AFTER THE USUAL SCHOOL END-OF-YEAR DECLINE IN JULY 2009, BUT THOSE INCREASES WERE LESS THAN NORMAL. IN NOVEMBER THERE WAS A DISTURBING DECLINE IN EMPLOYMENT. WE DON'T HAVE RESULTS FOR CHRISTMAS YET TO SEE IF THERE WAS ANY IMPROVEMENT OVER THE HOLIDAYS.

TO SUM UP STATE APPROPRIATIONS, UNLESS THE ECONOMY PICKS UP, STATE REVENUES FOR THE BUDGET WILL BE 7.4% LESS THAN LAST YEAR'S AMOUNT.

EDUCATION IMPROVEMENT ACT PENNY

THERE IS ALSO THE PROBLEM WITH THE ONE PENNY SALES TAX THAT GOES DIRECTLY TO THE SCHOOL DISTRICTS UNDER THE EDUCATION IMPROVEMENT ACT? THE BEA'S REVISED ESTIMATE OF EIA REVENUES FOR THIS FISCAL YEAR, FY 09-10, IS \$521 MILLION, WHICH IS BELOW REVENUES IN FY 05-06, FOUR YEARS AGO. THIS OCCURRED BECAUSE OF THE GREAT RECESSION AND, IN PART, BECAUSE THE SCHOOL DISTRICTS HAVE EATEN THE FULL 5% CUT IN THE FOOD TAX ON ITS ONE PENNY. THE BEA SET THE ESTIMATE AT \$522 MILLION FOR FY 10-11.

HOMESTEAD EXEMPTION FUND

THE RECESSION HAS ALSO CREATED A PROBLEM WITH THE FUNDING OF THE HOMESTEAD EXEMPTION FUND CREATED BY ACT 388. THE NEW ONE PENNY SALES TAX BEGAN JUNE 1, 2007 AND WAS ALLOCATED TO THE HOMESTEAD EXEMPTION FUND. THE FUND FINISHED FY 07-08 WITH A \$14.5 MILLION DEFICIT AND FY 08-09 WITH A \$53 MILLION DEFICIT. THOSE FUND DEFICITS WERE COVERED BY THE GENERAL FUND AND HELPED CONTRIBUTE TO THE STATE'S OVERALL DEFICIT.

WE HAVE SENT OUT OUR ESTIMATES OF ALLOCATIONS TO THE SCHOOL DISTRICTS FOR FY 10-11, THE FOURTH YEAR OF THE PROGRAM. THE ACTUAL ALLOCATION TO A SCHOOL DISTRICT IN THE FOURTH YEAR IS EQUAL TO ITS THIRD YEAR ACTUAL ALLOCATED AMOUNT, PLUS ITS

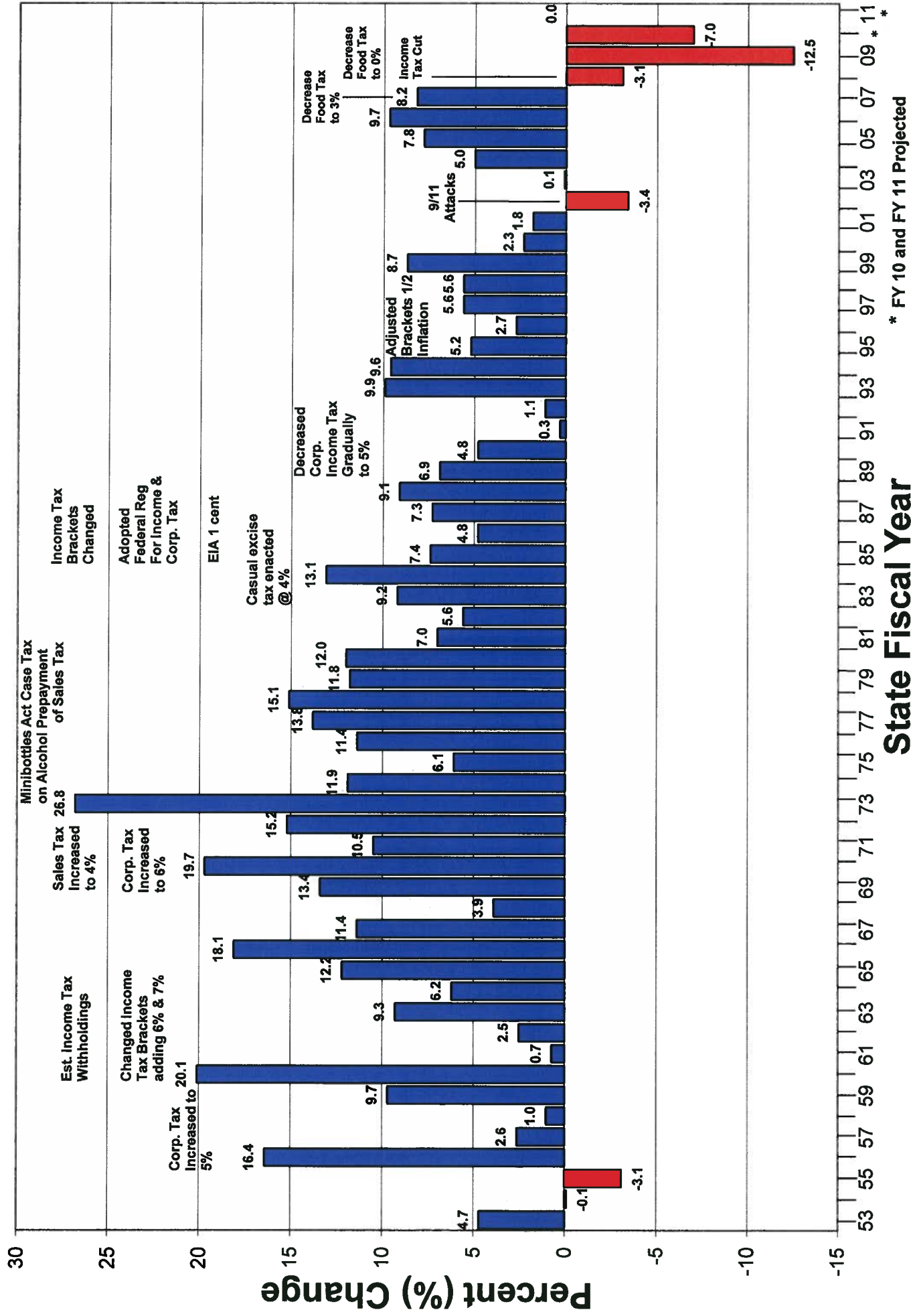
PERCENTAGE SHARE OF THE GROWTH IN THE "TRUST FUND" POT. THE GROWTH IN THE POT EQUALS GROWTH IN THE SOUTHEASTERN CPI AND POPULATION. THERE WILL BE SOME SHIFT IN THE DISTRIBUTION TO THE RURAL SCHOOL DISTRICTS BASED ON THE POVERTY ADJUSTMENT ADDED TO THE BASE YEAR REIMBURSEMENT. THE CPI FOR ELEVEN MONTHS IN 2009 WAS 0.7% LESS THAN LAST YEAR. WE EXPECT POPULATION GROWTH TO BE ABOUT 1.8%. SUMMED UP, THIS WILL AMOUNT TO 1.1% GROWTH IN THE POT FOR FY 09-10.

BASED ON THE BEA'S ESTIMATE OF A 4.1% DECLINE IN THE SALES TAX, WE CURRENTLY ARE PROJECTING THAT THE HOMESTEAD EXEMPTION TRUST FUND WILL BE \$117 MILLION SHORT THIS FISCAL YEAR. UNDER CURRENT LAW, THAT AMOUNT WILL BE TAKEN OUT OF THE STATE'S GENERAL FUND.

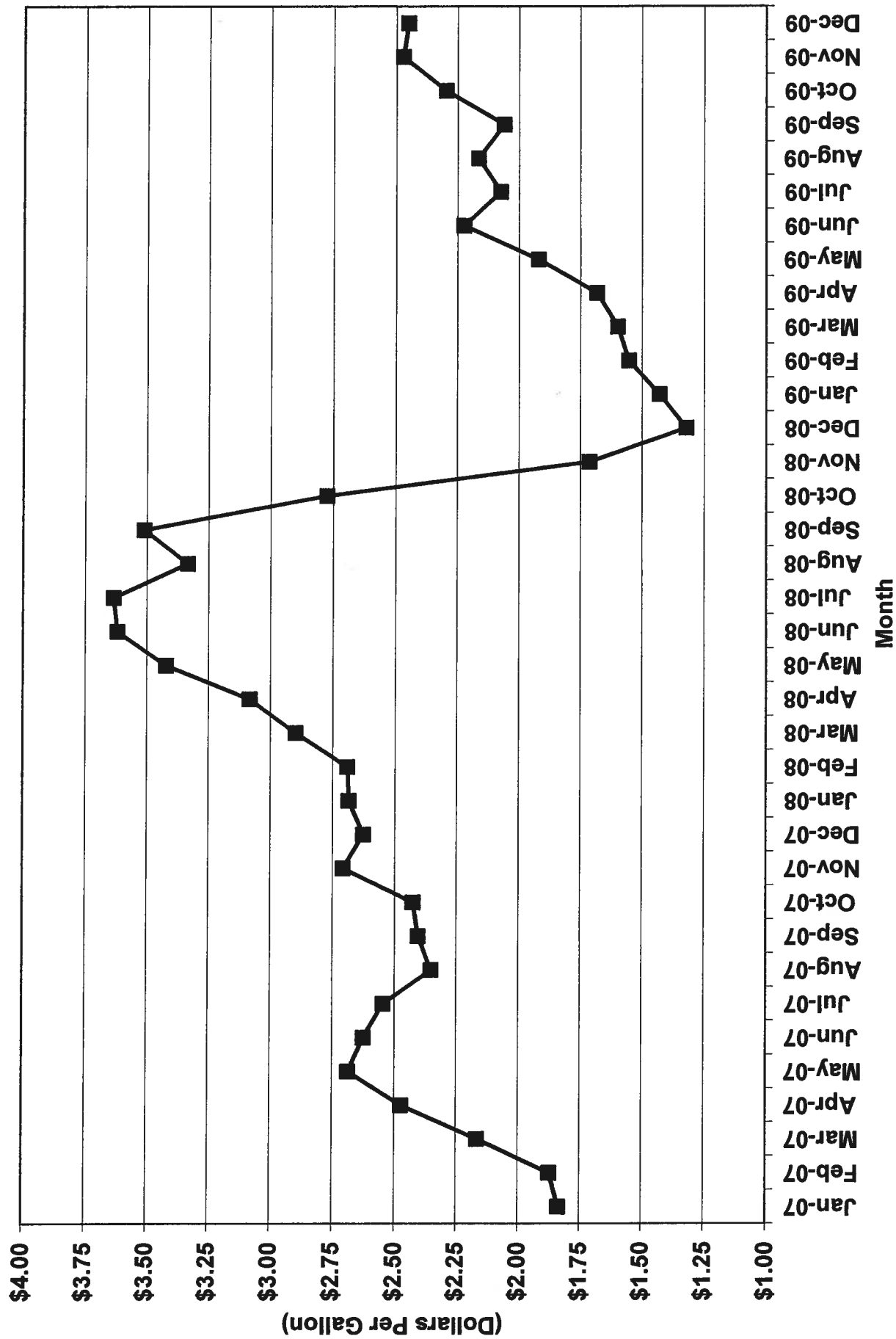
SOUTH CAROLINA EDUCATION LOTTERY FUND

THERE IS SOME GOOD NEWS. THE SOUTH CAROLINA LOTTERY EDUCATION FUND IS ON TARGET WITH THIS YEAR'S ESTIMATE, WHICH MEANS THE LOTTERY WILL PRODUCE AS MUCH REVENUE AS LAST YEAR.

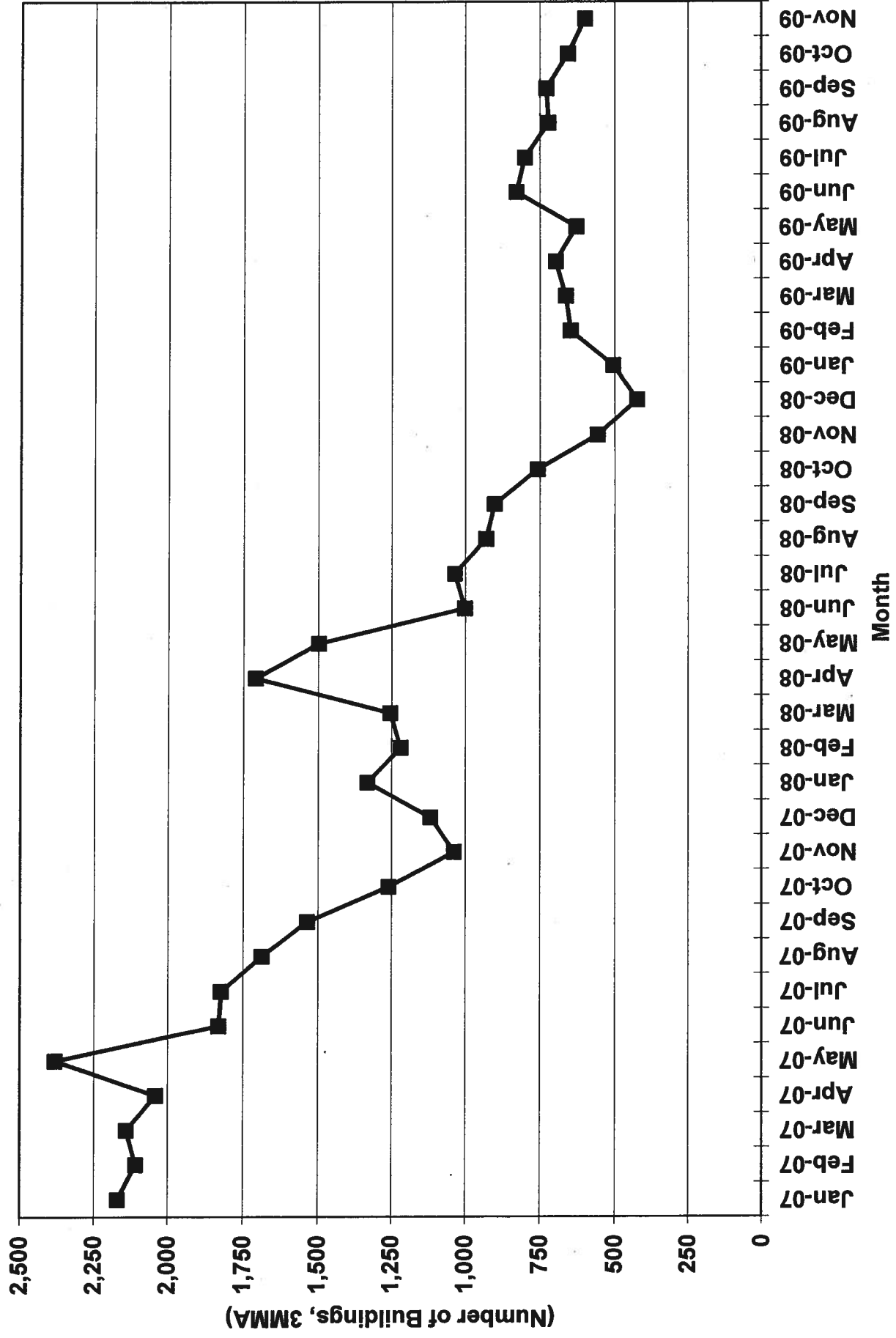
Percent Change in S.C. General Fund Revenue



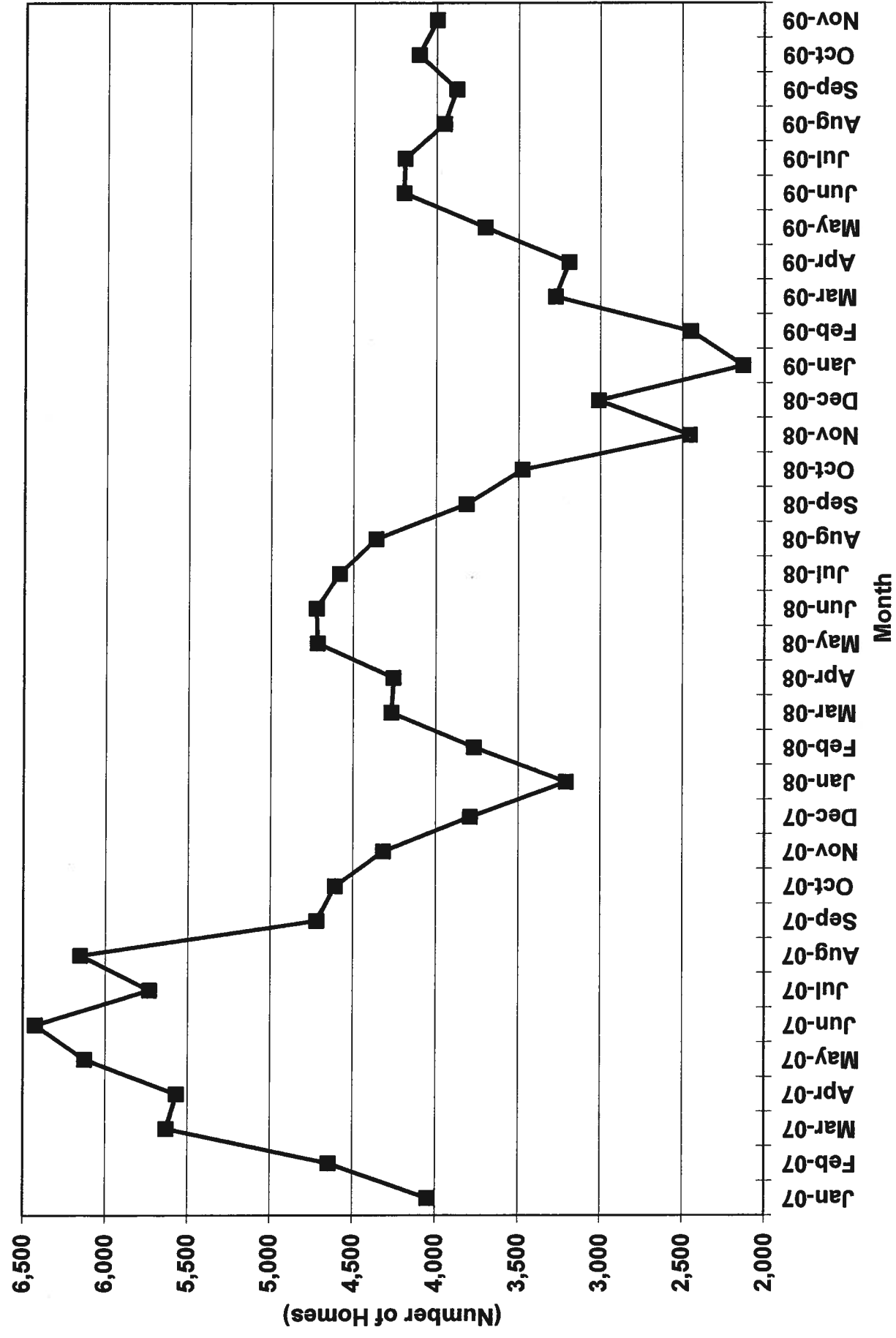
Gasoline Prices in South Carolina



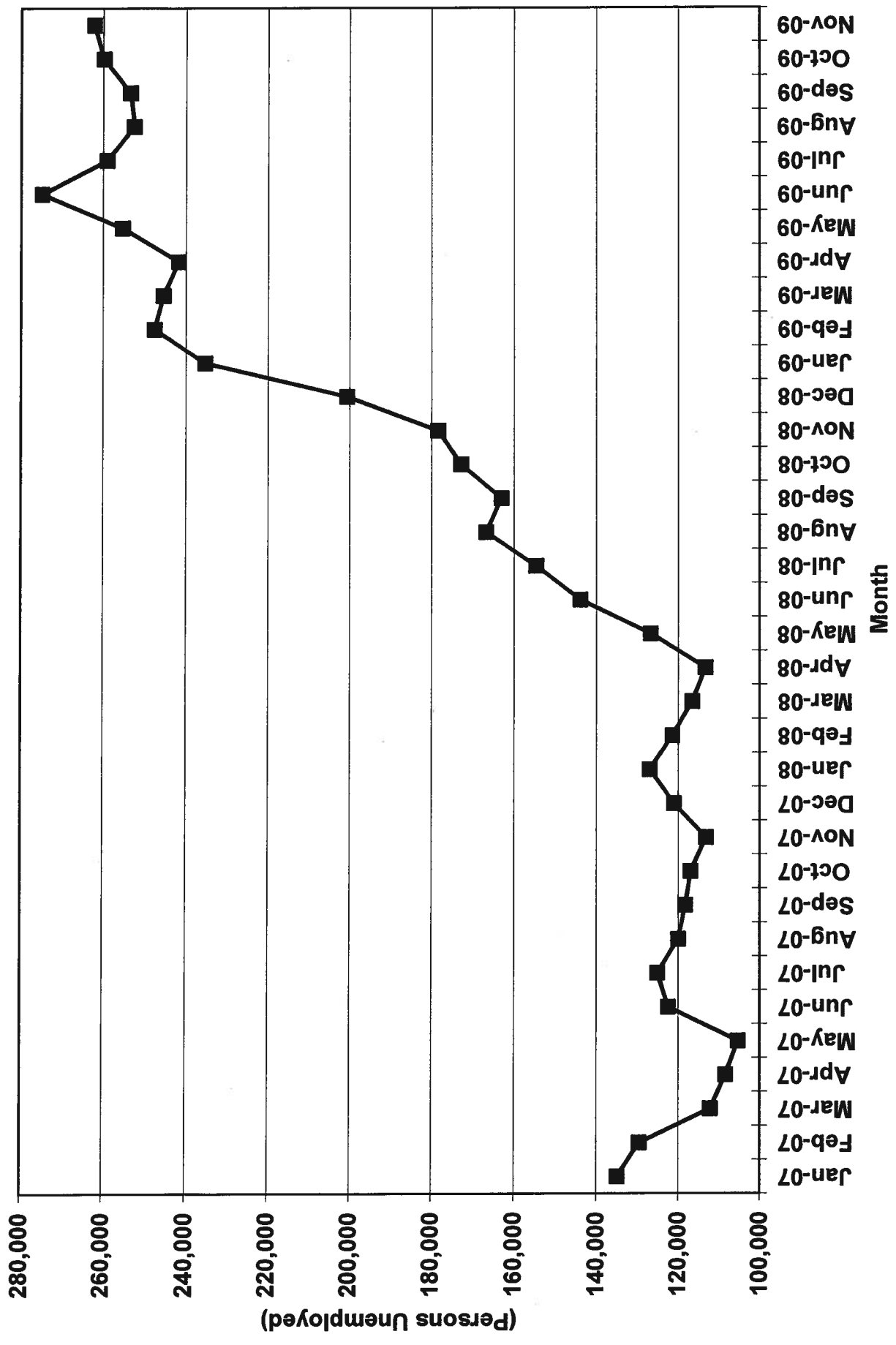
Residential Building Permits in South Carolina



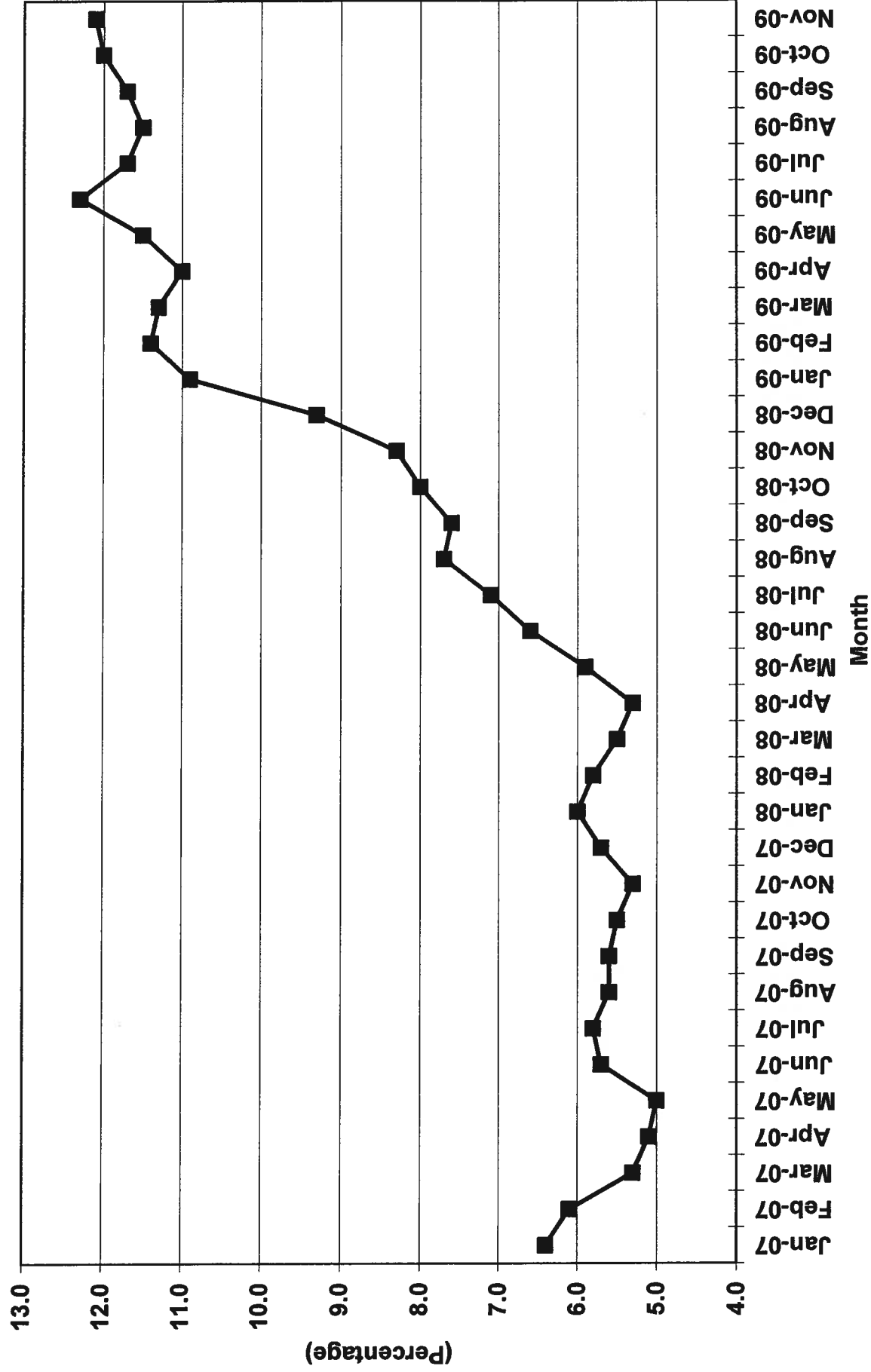
Number of Homes Sold in South Carolina



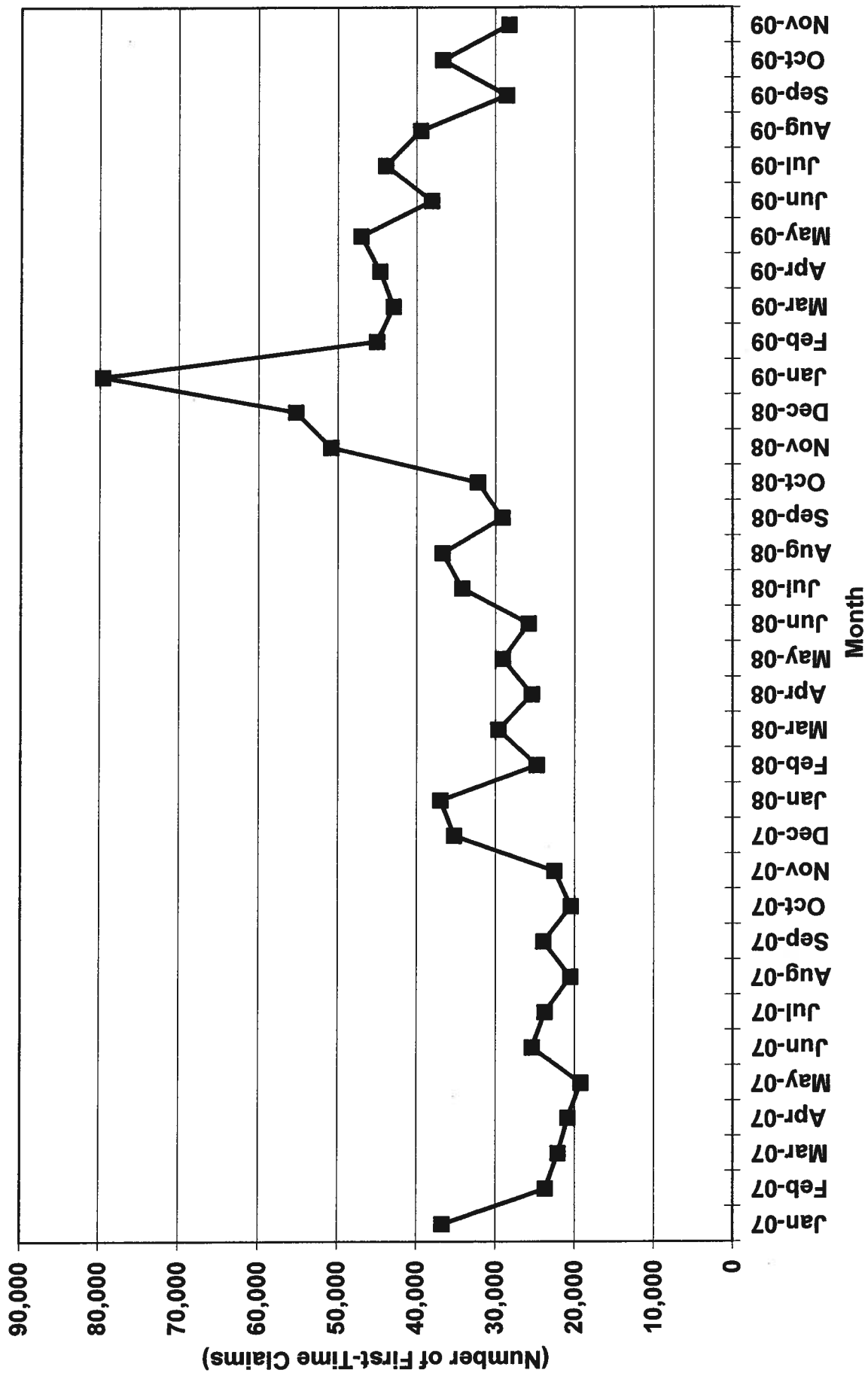
Total Unemployment in South Carolina



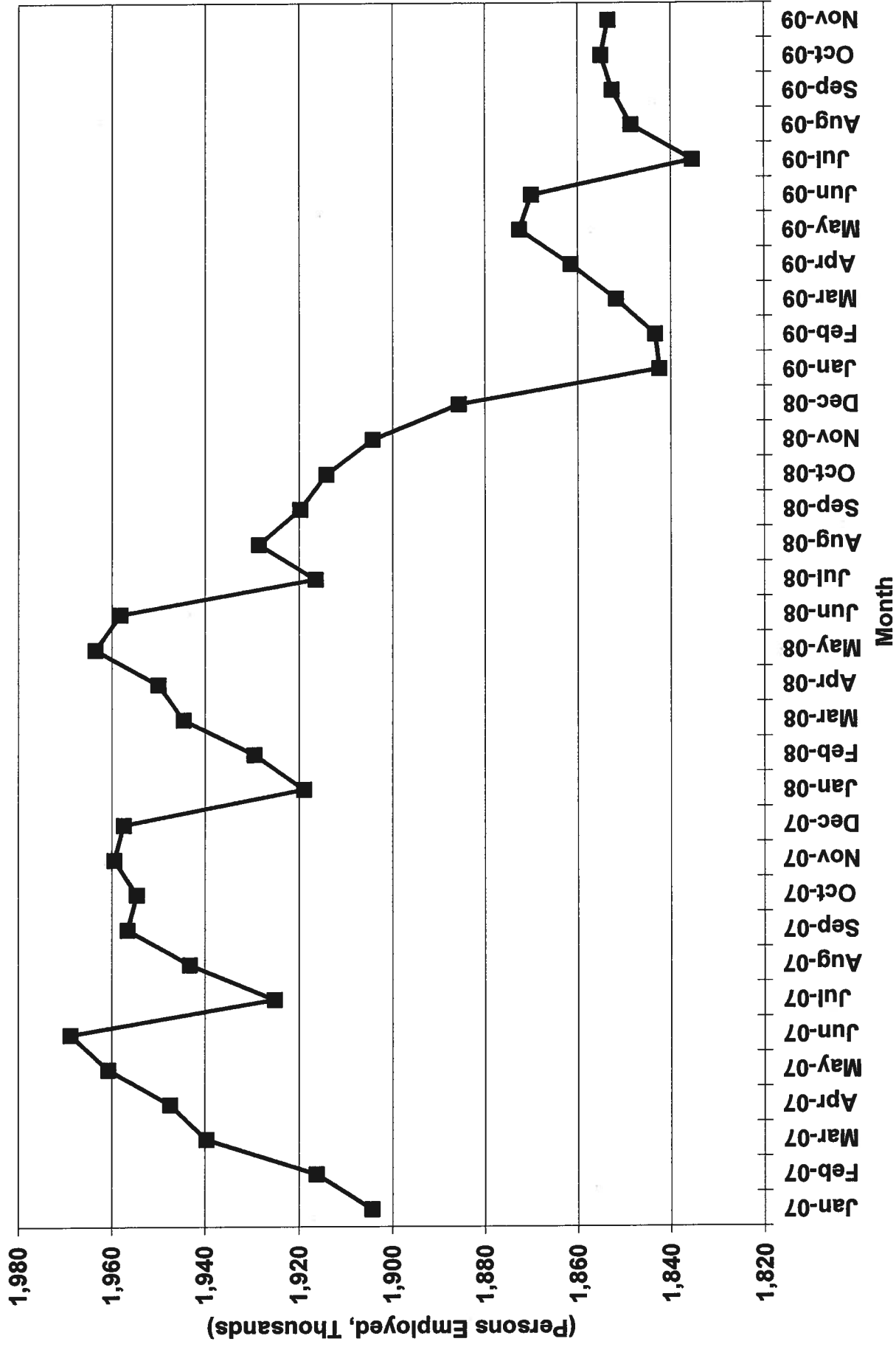
Unemployment Rate in South Carolina (Unadjusted)



Initial Claims for Unemployment Insurance in South Carolina



Total Employment in South Carolina



GENERAL FUND REVENUE CUMULATIVE SUMMARY: FISCAL YEARS 2008-09 & 2009-10

JULY - NOVEMBER

TABLE 2

REVENUE CATEGORIES	FY 2008-09	FY 2009-10	\$ CHANGE	% CHANGE
Retail Sales and Use Tax 1/	\$764,326,319	\$725,544,718	(\$38,781,601)	(5.1)
Excise Tax, Casual Sales 1/	6,468,425	4,911,033	(1,557,392)	(24.1)
Individual Income Tax	1,523,310,990	1,463,777,162	(59,533,828)	(3.9)
Corporation Income Tax	30,589,193	8,675,192	(21,914,001)	(71.6)
Admissions Tax 2/	3,919,179	3,880,985	(38,194)	(1.0)
Admissions Tax - Bingo 2/	945,647	976,936	31,289	3.3
Aircraft Tax	764,119	84,112	(680,007)	(89.0)
Alcoholic Liquor Tax 2/	18,089,820	17,480,549	(609,271)	(3.4)
Bank Tax	2,348,574	8,015,546	5,666,972	241.3
Beer and Wine Tax 2/	36,125,328	34,324,272	(1,801,056)	(5.0)
Business License Tax (Tobacco) 2.	10,134,472	11,058,084	923,612	9.1
Coin-Operated Device Tax	684,138	384,805	(299,333)	(43.8)
Corporation License Tax	25,411,556	22,964,946	(2,446,610)	(9.6)
Departmental Revenue 3/	5,912,193	(122,322)	(6,034,515)	(102.1)
Documentary Tax 2/	11,062,929	10,781,020	(281,909)	(2.5)
Earned on Investments **	35,832,070	19,179,030 4/	(16,653,040)	(46.5)
Estate and Gift Taxes	(11,838)	72,399	84,237	711.6 #
Insurance Tax	64,792,658	46,534,188	(18,258,470)	(28.2)
Motor Transport Fees	6,174	400	(5,774)	(93.5)
Motor Vehicle Licenses	4,794,585	1,681,906	(3,112,679)	(64.9)
Private Car Lines Tax	663,085	743,770	80,685	12.2
Public Service Authority	0	0	0	0.0
Retailers License Tax	315,923	313,901	(2,022)	(0.6)
Savings and Loan Assoc. Tax	467,620	1,191,866	724,246	154.9
Workers Comp. Insurance Tax	1,394,225	3,535,939	2,141,714	153.6
Circuit/Family Court Fines	4,119,483	4,028,668	(90,815)	(2.2)
Debt Service Transfers	50,185	53,241	3,056	6.1
Indirect Cost Recoveries	5,195,456	2,550,350	(2,645,106)	(50.9)
Mental Health Fees	0	0	0	0.0
Parole and Probation Fees	1,017,840	308,438	(709,402)	(69.7)
Unclaimed Property Fund	3,000,000	3,000,000	0	0.0
Gross General Fund Revenue 5/	\$2,561,730,348	\$2,395,931,134	(\$165,799,214)	(6.5)

1/: Excludes Education Improvement Act (1%), Accommodations (2%), Homestead Exemption Fund (1%) and Local Option taxes. Modified accrual since FY'91.

2/: End-of-year modified accrual since FY 1992-93 except for Documentary Tax, which began in FY 2001-02.

3/: Includes current and former "non-recurring revenue" shown separately in prior fiscal years.

4/: Includes late postings of \$3,782,377 applicable to November from 'SCEIS' error file sweep.

5/: Format corresponds to BEA Official Revenue Estimate. Property Tax Relief offset, prior year balance carried forward: FY'08, \$13,797,464; FY'09, \$5,145,216.

**: Results for earnings are subject to maturity differentials. NA: Not applicable. #: Sign change. *: Greater than +/- 9,999. (p): Preliminary as of June 30.

Source: S. C. Board of Economic Advisors (BEA).

File: WGM1209_Nov.123

PERSONAL INCOME GROWTH
FY09 - (9.4)%; FY10 - (9.4)%

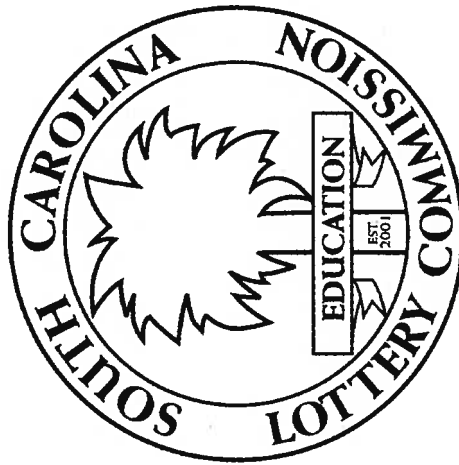
**GENERAL FUND REVENUE FORECAST
FISCAL YEARS FY2007-08 TO FY2010-11
(DOLLARS)**

REVENUE CATEGORIES	FINAL FY 2007-08	FINAL FY 2008-09	11/10/09 ESTIMATE FY 2009-10	11/10/09 ESTIMATE FY 2010-11	PERCENT CHANGE FY07/FY08	PERCENT CHANGE FY08/FY09	PERCENT CHANGE FY09/FY10	PERCENT CHANGE FY10/FY11
RETAIL SALES TAX 1/	2,444,198,397	2,230,817,103	2,138,682,405	2,138,682,405	-6.3	-8.7	-4.1	0.0
EXCISE, CASUAL SALES TAX	21,366,645	17,058,926	13,670,780	13,670,780	-3.2	-20.2	-19.9	0.0
INDIVIDUAL INCOME TAX	3,327,774,540	2,812,344,948	2,573,298,519	2,573,298,519	-0.6	-15.5	-8.5	0.0
CORPORATION INCOME TAX	312,554,756	249,241,783	167,893,717	167,893,717	4.0	-20.3	-32.6	0.0
SALES AND INCOME TAXES	6,105,894,338	5,309,462,760	4,893,545,421	4,893,545,421	-2.8	-13.0	-7.8	0.0
ADMISSIONS/BINGO TAX	34,067,084	33,566,855	34,173,324	34,173,324	1.7	-1.5	1.8	0.0
ADMISS. TAX TRANSFER TO COMMERCE	(6,369,143)	(6,435,117)	(6,706,708)	(6,706,708)				
AIRCRAFT TAX	6,145,104	6,260,566	5,115,477	5,115,477	4.1	1.9	-18.3	0.0
ALCOHOLIC LIQUOR TAX	56,652,160	57,460,841	57,361,772	57,361,772	1.0	1.4	-0.2	0.0
BANK TAX	19,313,042	8,493,851	7,425,001	7,425,001	-24.5	-56.0	-12.6	0.0
BEER AND WINE TAX	100,610,827	101,356,299	107,385,376	107,385,376	1.0	0.7	5.9	0.0
BUSINESS LICENSE TAX	31,072,833	30,572,978	28,000,000	28,000,000	-1.9	-1.6	-8.4	0.0
COIN-OPERATED DEVICES	1,597,573	2,134,238	1,517,694	1,517,694	39.3	33.6	-28.9	0.0
CORPORATION LICENSE TAX	74,406,043	80,987,747	92,132,150	92,132,150	14.2	8.8	13.8	0.0
DEPARTMENTAL REVENUE 3/	43,908,550	37,651,096	43,108,056	43,108,056	-0.6	-14.3	14.5	0.0
DOCUMENTARY TAX	57,966,115	32,991,962	37,966,113	37,966,113	-22.9	-43.1	15.1	0.0
LESS: CONSERVATION BANK TRUST FUND	(14,781,204)	(8,585,569)	0	(9,491,526)				
EARNED ON INVESTMENTS	123,633,239	79,559,729	51,000,000	54,000,000	-4.0	-35.6	-35.9	5.9
ELECTRIC POWER TAX	27,874,092	23,832,288	27,934,127	27,934,127	-1.0	-14.5	17.2	0.0
LESS: TRANSFER TO COMMERCE/SIB	(27,874,092)	(23,832,288)	(27,934,127)	(27,934,127)				
ESTATE AND GIFT TAXES	343,510	152,850	0	0	-77.7	-55.5		
LESS: FEDERAL CHANGE TO ESTATE TAX	0	0	0	0				
INSURANCE PREMIUM TAX	161,103,334	158,546,951	172,602,958	172,602,958	1.3	-1.6	8.9	0.0
INSURANCE LICENSE TAX	11,934,114	29,686,647	13,243,231	13,193,231	-48.3	148.8	-55.4	-0.4
INSURANCE RETALIATORY & OTHER TAX	6,757,323	5,761,616	5,000,000	5,000,000	39.3	-14.7	-13.2	0.0
LESS: INSURANCE CREDITS	(20,180,944)	(21,112,575)	(17,196,097)	(17,196,097)	3.5	4.6	-18.6	0.0
MOTOR TRANSPORT FEES	3,875	6,899	10,000	10,000	-12.5	78.0	44.9	0.0
MOTOR VEHICLE LICENSES	24,285,770	15,113,183	15,627,286	15,627,286	-25.4	-37.8	3.4	0.0
PETROLEUM INSPECTION TAX	8,170,043	7,730,378	9,374,473	9,374,473	0.7	-5.4	21.3	0.0
LESS: TRANSFER TO NON-FED HGWY FUND	(8,169,856)	(7,730,378)	(9,374,473)	(9,374,473)				
PRIVATE CAR LINES TAX	3,595,122	3,733,905	4,034,169	4,034,169	23.2	3.9	8.0	0.0
PUBLIC SERVICE AUTHORITY	15,720,000	20,511,000	16,340,234	16,340,234	4.8	30.5	-20.3	0.0
RETAILERS LICENSE TAX	847,161	788,790	883,722	883,722	-4.2	-6.9	12.0	0.0
SAVINGS & LOAN TAX	3,356,902	3,815,836	2,002,478	2,002,478	12.5	13.7	-47.5	0.0
WORKERS COMP. INSURANCE	13,559,040	12,779,422	14,655,680	14,655,680	-6.3	-5.7	14.7	0.0
CIRCUIT/FAMILY COURT FINES	10,640,349	10,162,045	10,664,363	10,664,363	6.6	-4.5	4.9	0.0
DEBT SERVICE TRANSFERS	1,722,838	1,144,988	188,108	188,108	-19.8	-33.5	-83.6	0.0
INDIRECT COST RECOVERIES	15,837,054	16,101,492	16,679,391	16,679,391	0.6	1.7	3.6	0.0
MENTAL HEALTH FEES	3,400,000	3,400,000	3,200,000	3,200,000	-5.6	0.0	-5.9	0.0
PAROLE / PROBATION FEES	3,392,808	3,392,808	3,392,808	3,392,808	-0.3	0.0	0.0	0.0
UNCLAIMED PROPERTY FUND	12,000,000	12,000,000	12,000,000	15,000,000	-20.0	0.0	0.0	25.0
CONFORMITY TO IRS CODE			(5,474,229)					
OTHER BASE SOURCES	796,540,666	732,001,333	726,332,357	728,265,060	-5.8	-8.1	-0.8	0.3
TOTAL GENERAL FUND REVENUE	6,902,435,004	6,041,464,093	5,619,877,778	5,621,810,481	-3.1	-12.5	-7.0	0.0
APPROPRIATION ACT REVENUE	7,107,825,466	7,246,362,115	6,070,559,868	5,621,810,481	7.9	1.9	-16.2	-7.4
LESS: TAX RELIEF TRUST FUND	(520,192,424)	(532,849,494)	(535,738,480)	(545,880,212)	0.9	2.4	0.5	1.9
PLUS: TAX RELIEF FUND CARRYFORWARD	13,797,464	5,145,216	1,451,372					
EXCLUDING TRUST FUNDS	6,601,430,506	6,718,657,837	5,536,272,760	5,075,930,269	8.5	1.8	-17.6	-8.3
CAPITAL RESERVE FUND (2%) - BEG. BAL.	124,520,532	0	0	110,883,455	11.4	-100.0		
GENERAL RESERVE FUND (3%) - BEG. BAL.	186,780,797	95,122,617	63,923,944	119,365,672	11.4	-49.1	-32.8	86.7
TOTAL RESERVES	311,301,329	95,122,617	63,923,944	230,249,127	11.4	-69.4	-32.8	260.2
REVENUE EXCESS / SHORTAGE FROM ACT	(205,390,462)	(1,204,898,022)	(450,682,090)	0				
EDUCATION IMPROVEMENT ACT 2/	635,302,264	561,072,910	521,909,107	522,234,107	-2.0	-11.7	-7.0	0.1
EIA FUND	607,243,384	560,649,108	521,794,107	521,794,107	-2.9	-7.7	-6.9	0.0
EIA HOLD HARMLESS	26,000,000							
EIA INTEREST	2,058,880	423,802	115,000	440,000	-48.1	-79.4	-72.9	282.6
S.C. EDUCATION LOTTERY FUND (NET)	266,128,271	260,437,827	252,400,000	252,400,000	-2.7	-2.1	-3.1	0.0
HOMESTEAD EXEMPTION FUND								
TOTAL REVENUE AVAILABLE	550,484,062	532,647,527	496,940,585	495,673,055				
LESS: HOMESTEAD EXEMPT. FUND SHORTFALL	(14,545,708)	(52,995,831)	(117,458,034)	(125,505,123)				

1/: Excludes (1%) Education Improvement Act and (2%) Accommodations Taxes.

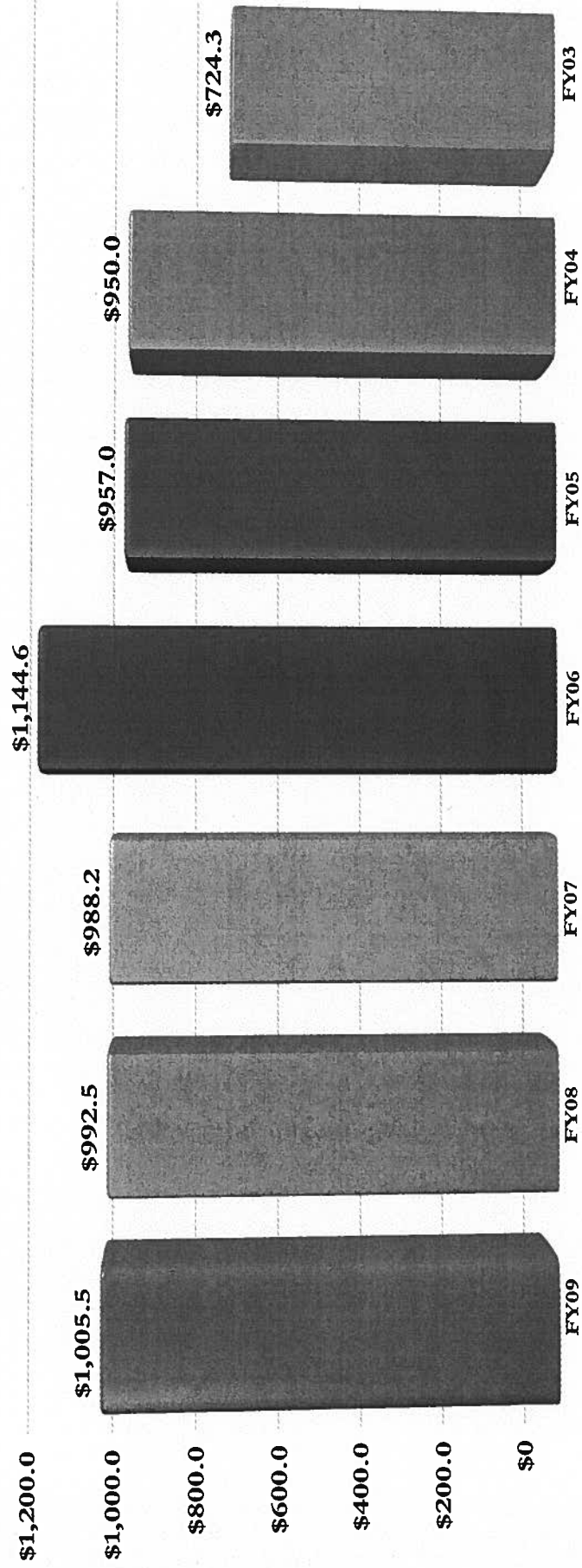
2/: Includes interest earnings.

3/: Includes former Dept. of Agriculture agency revenue other than the Petroleum Inspection Tax now shown separately.
Source: S. C. Board of Economic Advisors /11/10/09

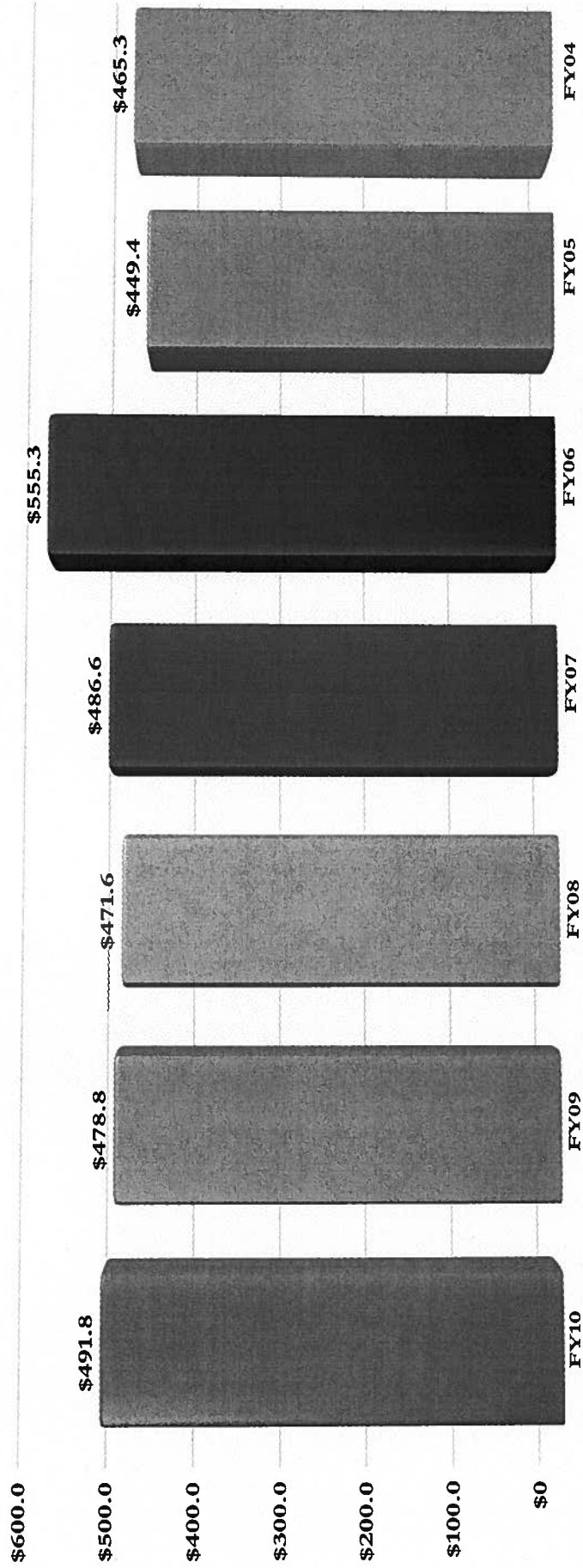


South Carolina Education Lottery
Presentation to
Ways & Means Committee
The House of Representatives
January 12, 2010

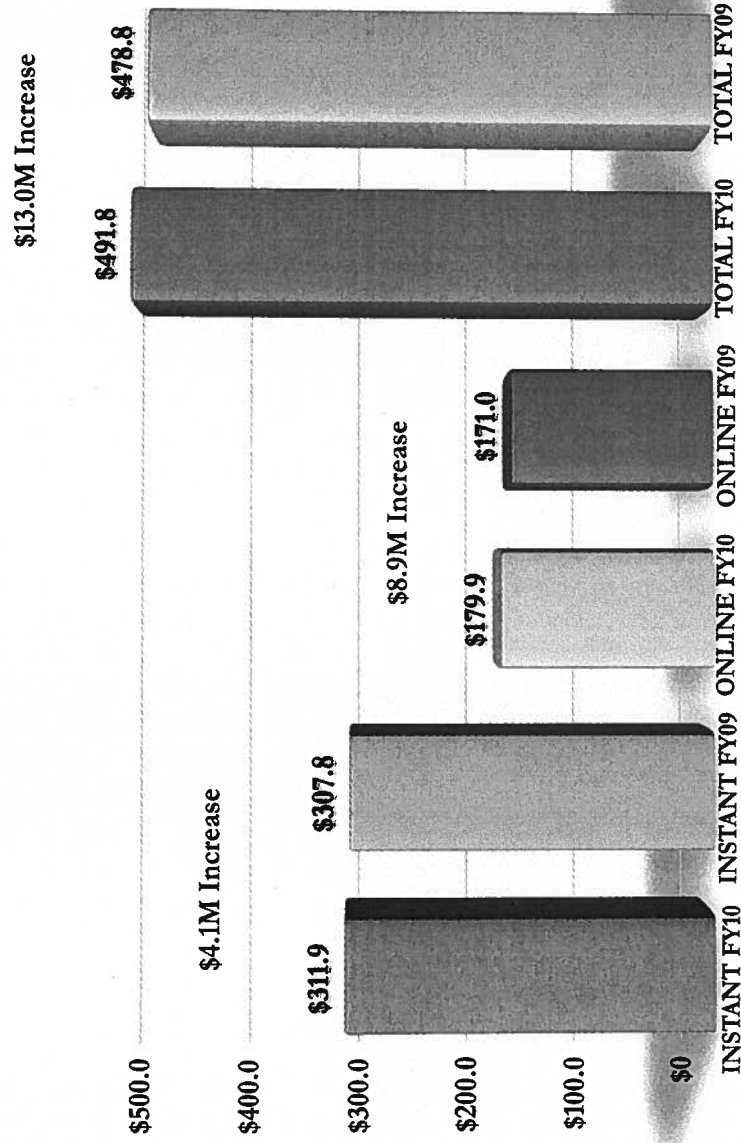
Sales Revenue (\$M)



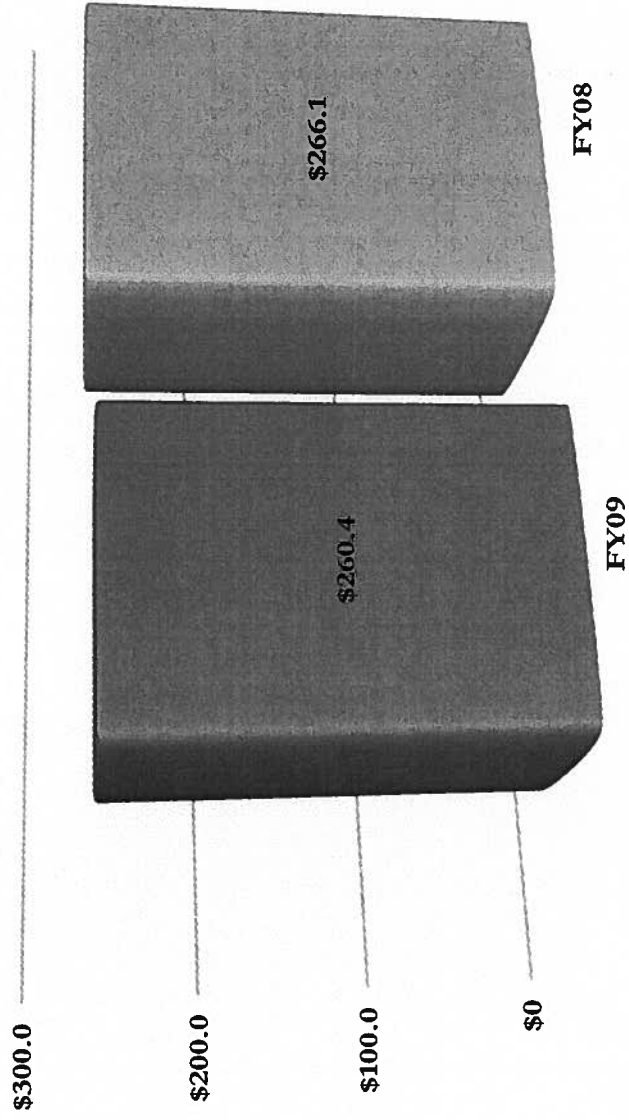
Sales Revenue (\$M) – July – December



Instant and Online Sales – July - December - FY09 & FY10 (\$M)

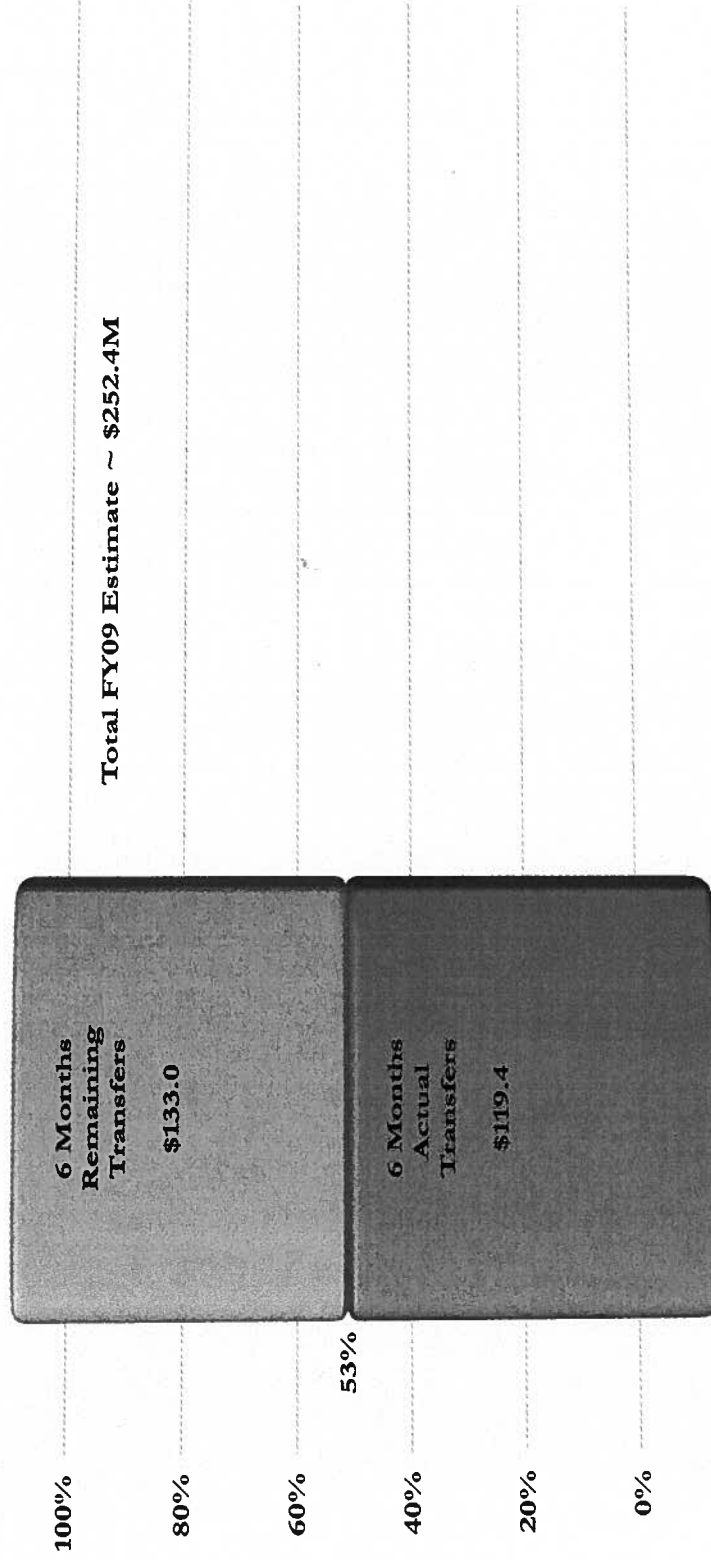


Transfers FY09 & FY08 (\$M)

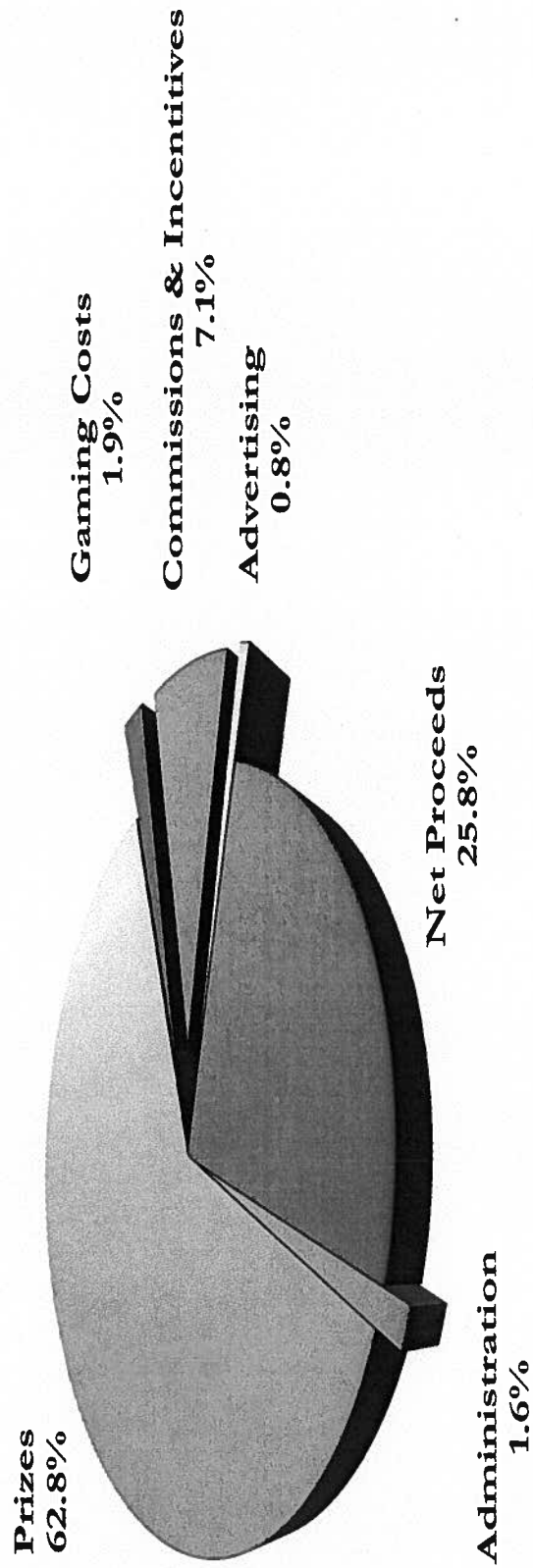


Total Transfers To Date ~ \$2.1B

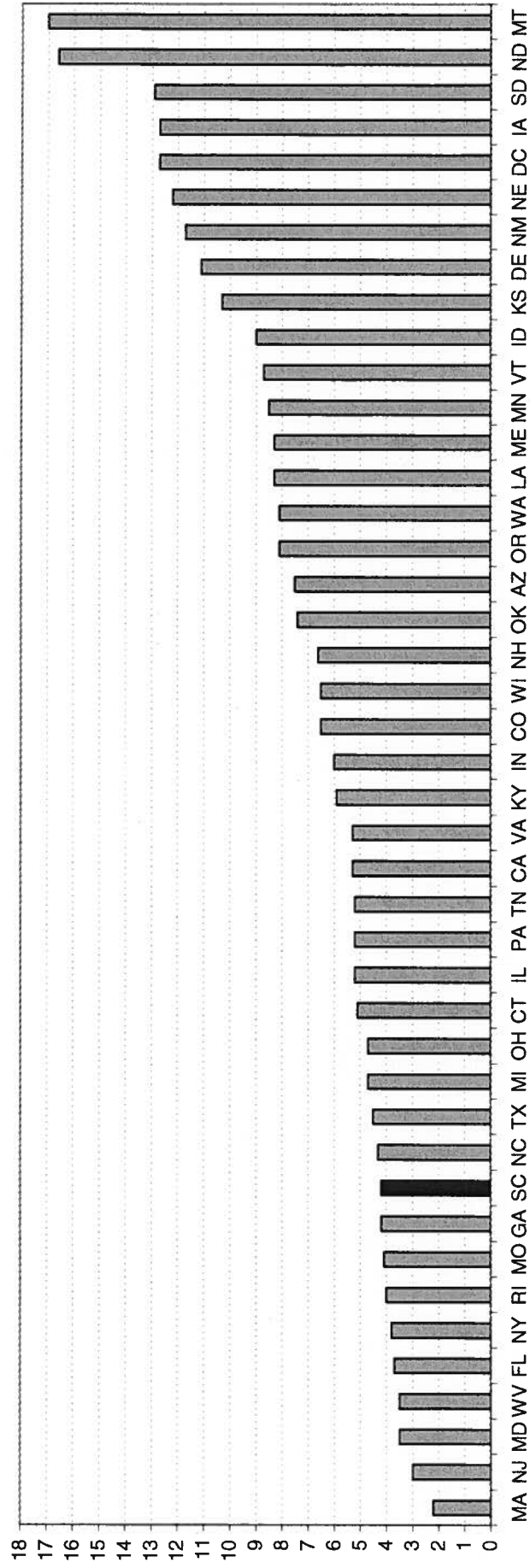
FY10 Transfers



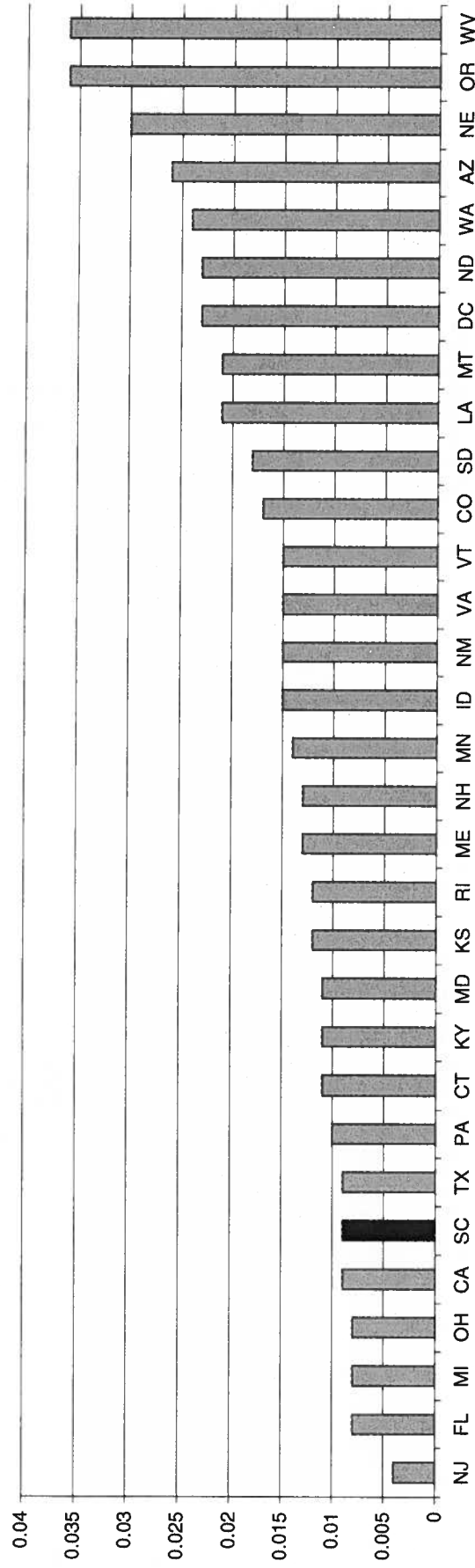
Percent of Total Revenue FY09



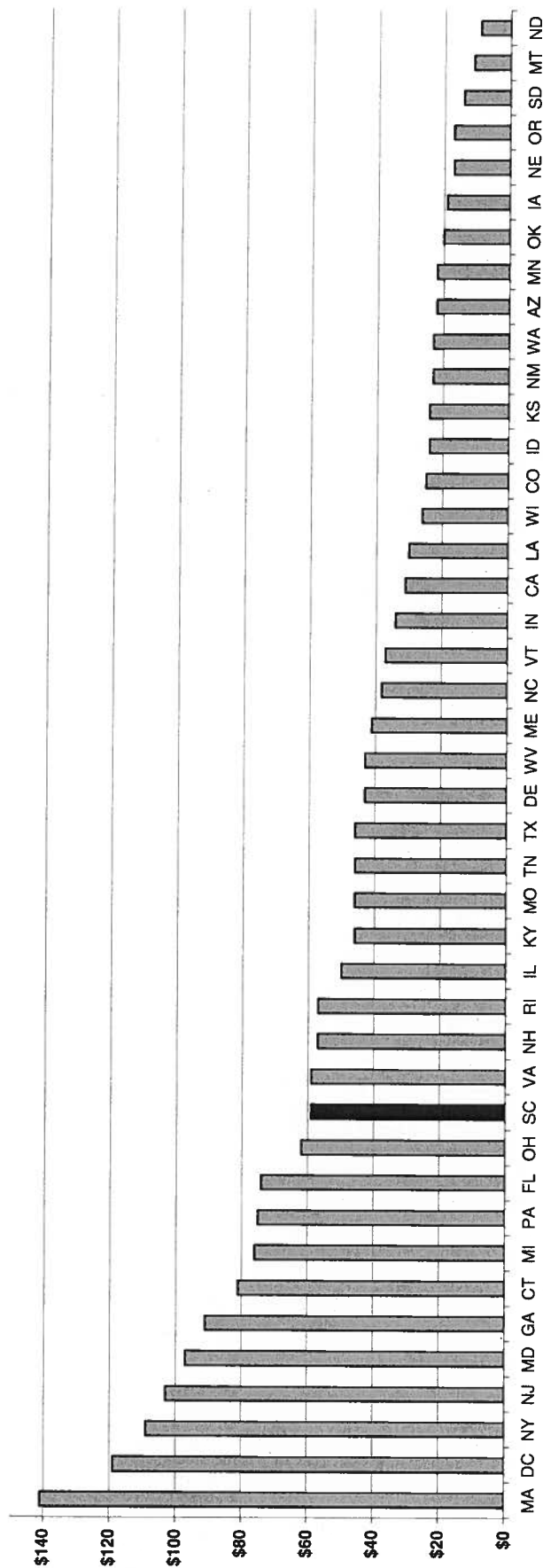
Administrative Expense as % of Gross Sales (FY08)



Advertising as % Sales (FY09 Budget)



Net Income Per Capita (FY08)



MEGA MILLIONS ®

START JANUARY 31, 2010

ESTIMATED \$18 - \$22M NET PER FULL YEAR
RECOMMEND NO CHANGE TO FY10 ESTIMATE

Preliminary FY 2010-11 Budget Outlook

BEA FY 09-10 Gross General Fund Revenue Estimate (11/09)	5,621,810,481
Property Tax Relief Trust Fund	545,880,212
Net General Fund Revenue	5,075,930,269
FY 09-10 Beginning Base (After 4.04% & 5% cut)	5,275,343,200
"New" Recurring Revenue	<u>(199,412,931)</u>

Statewide Funding Issues

FY 08-09 General Fund Deficit -Repay General Deposit Account	98,216,617
GRF	55,441,728
CRF	(16,964,433)
Local Gov Fund	19,255,184
Debt Service	23,172,760
Annualization of Agency Appropriations (supported with nonrecurring revenue)	8,000,000
Homestead Exemption Shortfall	99,085,991
Employee Health Insurance- Jan 2011 w/out Employee Participation in Increase	58,361,000
FY 09-10 Agency Deficits --Dept of Corrections estimate	23,822,922
SCEIS Implementation	7,273,046

Statewide Funding Issues Total

375,664,815

Balance ---(Budget Gap)

(575,077,746)

EFA \$625 million to fully fund the Base Student Cost/ EFA

Medicaid/Health Agencies \$362 million - HHS requested Maintenance of Effort

American Recovery and Reinvestment Act (ARRA) Offset for FY 2010/11 / Budget GAP for FY 2011/12

Medicaid (FMAP Enhancement) \$406,000,000

State Fiscal Stabilization Fund \$346,056,109

Total \$752,056,109